September 17, 2004

Bonnie Bunning, Executive Director
Department of Natural Resources
1111 Washington Street SE
PO Box 47001
Olympia, WA 98504-7001

Re: Independent Review Committee

Dear Ms. Bunning:

In late August, we received the Summary from your office regarding Commissioner Sutherland's appointment of an Independent Review Committee to review DNR's conclusion that it needs additional revenues to manage the lands held in trust for WSU and the other educational beneficiaries. WSU is submitting this letter in response to the Department's request that the trust beneficiaries submit specific questions for consideration by the "Independent Review Committee."

WSU is not in favor of increasing the share of revenues that DNR retains for management of the trust lands. If it can be objectively demonstrated that an increase in funding is necessary and will produce significant gains in the income generated for the beneficiaries, the increase in funding must come from sources other than the trust revenues. In addition, we are concerned that any and all revenues retained by DNR from the trust income be used only for the specific purpose of enhancing or generating revenue for the trusts.

With this background, WSU submits the following specific questions for review and answer by the Independent Review Committee:

1. Why is the present 25% of revenue inadequate to fund the Department's management expenses? What are the specific costs being paid with this revenue, and which of those costs have increased (or been incurred) within the last decade to require an increase in the RMCA percentage? What portion of these increased costs, if any, are associated with environmental mandates (e.g the HCP and the ESA)?

2. How will the increased management expense be used? Are there specific targeted expenses that will be covered by this increase?

3. What is the incremental benefit that the trust beneficiaries will in fact derive from the increased management cost? When and how will that benefit be realized? Is the increased benefit adequate to justify the increased cost? Will the benefit be realized in the form of increased revenues to the Universities?

4. In evaluating the propriety and effect of the proposed management fee increase, are other Department administered funds also being reviewed? If an increase to the RMCA percentage is recommended, will the other Department administered funds have corresponding increases in overhead to support Department administration and agency functions?

5. Will the Independent Review Committee review the segregation of costs tied to the federal and state legal requirements versus “public benefit” targets?

6. How are direct and indirect costs being allocated for each of the asset classes? How do revenues generated for each asset class (e.g. timber, agriculture, aquatic, commercial) match up to related expenditures (both direct and indirect)?

7. What would the cost structure be if the trusts did not have timber lands as the principal holdings? Will the Committee evaluate whether it is proper under the Department’s trust responsibilities to keep the trusts so heavily invested in upland forest lands if the cost structure for doing so is unduly burdensome?

8. If costs and revenues are aggregated at the trust level, will changes be considered to better match management costs to revenues generated on an asset class basis? For example, management of timber lands is certainly more time consuming than a commercial building with a long term lease. Please note that we are not suggesting that a specific review of non-upland trust revenues and expenditures be made, but we do want a comparison of the costs by asset class to be considered.

9. Will the private sector be surveyed to obtain management cost data and, where applicable, compare those figures to the Department’s management costs (by asset class) to ascertain opportunities for further management efficiencies and savings?

10. How does 25% of revenue compare to the fee that would be charged by outside land managers, and how does the Department’s cost structure compare to that of outside land managers?

11. Inventory of standing timber is expected to increase by 45% over the next 64 years up to 45 billion board feet. What would be the required increase in timber harvest to produce the necessary revenue to meet associated costs at the current 25% rate? How does this required harvest figure compare to the sustainable harvest calculation?

12. What are the market expectations and Department projections for real timber price increases over the next twenty years? How have these price increases, if any, and the timber age-class schedule been factored into the harvesting plans and projected management deficits?

13. How do the current land treatments and “on the ground” management practices compare to the most economically efficient land treatments? Are similar treatments and practices used by outside land managers? If there is a difference, what is the impact on revenue, related RMCA revenue and associated management costs? Please share with the Independent

Review Committee and the other beneficiaries the economic analyses performed that indicate how the trusts were impacted (either positively or negatively) by the recent sustainable harvest calculation.

14. What other sources of revenue have been examined to meet the needs for managing the timber trusts?

15. What elements of the management of the trust lands can be effectively outsourced at a cost savings?

16. Finally, for any recommended changes, please prepare an economic analysis detailing the impact of a proposed fee adjustment on the trust beneficiaries.

Thank you for giving us the opportunity to present these questions to the Independent Review Committee.

Yours truly,

Greg Royer
Vice President for Business Affairs

cc: V. Lane Rawlins, President, Washington State University
Weldon Ihrig, Executive Vice President, University of Washington
Richard Heath, Associate Vice President, Washington State University
Larry Ganders, Assistant to the President, Washington State University